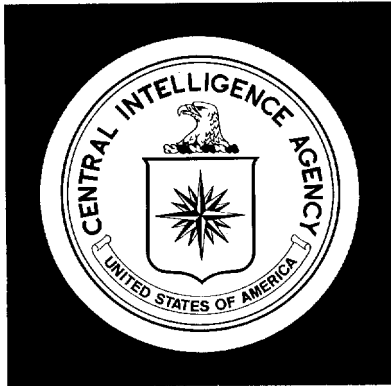


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NORTH VIETNAM: Hanoi apparently began a substantial military recruitment campaign last month; if past patterns are followed, the drive will continue through September.

Recent North Vietnamese propaganda reminding the population that military conscription had to continue "in peacetime," as well as "in wartime or emergency cases," probably signaled the start of the new induction drive.

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The extent and duration of the current conscription drive could provide some indication of Hanoi's intentions in South Vietnam for the next dry season, which runs from October to May. These new recruits could not be integrated into existing forces in the South before early next year.

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CHINA-US: Peking apparently intends to become a regular buyer of large quantities of US cotton. Officials of the China National Textile Import and Export Corporation have informed a US cotton broker that China cannot produce enough cotton to meet domestic needs. These officials have also indicated that they expect the US to become Peking's major cotton supplier, because the US is the only country capable of expanding output to meet China's requirements.

At least three major US cotton exporters have traveled or have been invited to China in recent weeks to negotiate sales of cotton from the 1974/75 and 1975/76 crops. The Chinese have purchased more than 750,000 bales from the 1973/74 crop; they are bargaining for more, but most if not all of the remainder of the crop has been committed. If the US export market remains unchanged, regular sales of large quantities of cotton to China would require an expansion of US cotton acreage and ginning capacity.

ICELAND: The government meets today to consider Progressive Party resolutions calling for a break in diplomatic relations with London if further incidents at sea occur, and a review of continued Icelandic participation in NATO. The cabinet is almost certain to adopt the resolutions, and approval of subsequent legislation by the parliamentary foreign relations committee, particularly for breaking relations with Britain, is likely. The hardened attitude toward the British stems from recent ramblings--one indirectly resulting in the death of an Icelandic seaman--and British reconnaissance flights over the disputed fishing area. If tensions continue to grow, the resulting public pressure in Iceland may make it impossible for the government to compromise in negotiations on the retention of US forces at the Keflavik base, scheduled to begin later this month.

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BRAZIL: Brasilia has again acted to slow the rapid inflow of foreign capital and to curtail its inflationary impact.

Brazilians are now required to deposit in non-interest-bearing accounts with the Central Bank 40 percent of the cruzeiro proceeds derived from new foreign loans. In effect, the measure will raise the cost of foreign borrowing by about two thirds. Brazil introduced a similar deposit requirement of 25 percent last October, but abandoned it in June as ineffective.

Because of heavy borrowing abroad, Brazil's official foreign exchange reserves have grown dramatically over the past two years to \$6.3 billion--the largest of any country outside the developed countries. This has hindered efforts to regulate the domestic money supply, which is growing at an annual rate of 45 percent, compared with rates of 30 percent from 1970 through 1972. Brasilia fears that excess money supply growth will make it impossible to prevent inflation rates from exceeding the 12-percent limit set for this year. Since January, prices have not increased as rapidly as in 1972, but inflationary pressures appear to be increasing. Despite this latest measure, it is doubtful that Brasilia can achieve its price control goals this year.



ITALY: Shortages of food staples may force the government into the politically embarrassing position of having to retreat from its stringent price control system. Soybeans, feed grains, and wheat are in short supply. A bread crisis has been averted largely as a result of the government's emergency purchase of French soft wheat, but hoarding of durum wheat by Italian farmers and speculators is beginning to cause a serious shortage of pasta.

The Italian pasta industry, caught in a profit squeeze between soaring hard wheat prices and the 16 July price freeze on staple food items, has threatened to defy the government's price ceilings or shut down production. A 1967 law requiring that all Italian pasta be made of durum has contributed to the impasse. To shake loose hoards of Italian durum and force wheat prices down, Prime Minister Rumor attempted to buy some 40,000 tons of hard wheat from the US Government on a concessionary basis for resale to Italian pasta producers. US government stocks are depleted, however, and the Italian bid was denied.

To avoid likely defeat in a direct confrontation over prices, the Rumor government probably will have to back down from its commitment to hold the line. If the government chose to buy durum on the open market for resale to pasta processors at subsidized prices, the record budgetary deficit would increase. The government would also leave itself open to charges of financial bungling if the market price of wheat subsequently fell. Further, if the government were to allow pasta to be made from soft wheat, the pasta shortage could be replaced by a bread shortage. Lacking a politically acceptable alternative, the government probably will have to grant selective price increases. A price rise for pasta is almost certain to be granted.

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**NORWAY:** The electorate so scattered the votes in Norway's two-day election that any form of permanent stable government may be difficult to achieve. Parties on the extreme left and right, many of them newly formed, took votes away from the more traditional parties. One report boasting nearly complete returns showed the socialist parties leading the non-socialists by a one-vote majority in the 155-seat parliament.

The Labor Party, Norway's largest, lost the most seats, dropping from 73 to 63. Nevertheless, Labor is still the best bet to form a government, either alone or in coalition with the Socialist Electoral Alliance--the Communist Party, the Socialist People's Party, and the anti-EC Laborites--which reportedly won 15 seats.

Among the non-socialist parties, the Conservatives lost one seat, dropping to 28, and the Centrists added two, giving them 22. Prime Minister Lars Korvald's Christian People's Party picked up five new seats, giving it 19. The Liberal Party, which split in two over the EC issue, got three seats and its splinter faction, the New People's Party, only one. Anders Lange's anti-tax party won five seats.

Even if the final tally shows the non-socialists with a majority, it is doubtful that such a diverse group could cooperate to form a government.

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FOR THE RECORD\*

France: President Pompidou begins a week-long visit to China today. He plans to spend four days in Peking before leaving on a tour of three other cities. There are no significant problems between France and China, and Pompidou's talks with the Chinese leaders probably will go smoothly.

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*\*This item was prepared by CIA without consultation with the Departments of State and Defense.*

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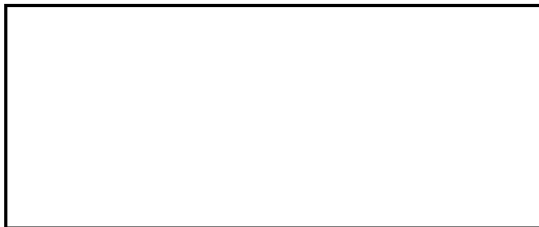
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